

Message Text

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PAGE 01 SAN JO 02500 181735Z

43

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

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R 181526Z JUN 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 0529

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

AMEMBASSY PANAMA

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GUATEMALA FOR ROCAP

E.O. 11652: NA

TAGS: EFIN ENRG CS

SUBJECT: FOREIGN EXCHANGE RESERVES STABILIZED

REF: SAN JOSE 0065

1. THE LATEST INFORMATION RELEASED BY THE CENTRAL BANK INDICATES THAT COSTA RICA'S GROSS FOREIGN EXCHANGE RESERVES TOTAL \$80 MILLION AND THAT NET RESERVES (GROSS RESERVES US SHORT-TERM LIABILITIES) AMOUNT TO \$30 MILLION. THE GOVERNMENT EXPECTS TO DRAW \$29 MILLION FROM THE INTERNATIONAL MONETARY FUND'S OIL FUND TO FORTIFY ITS RESERVE POSITION, BUT HAS NOT YET MADE FORMAL APPLICATION.

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PAGE 02 SAN JO 02500 181735Z

2. COMMENT: THE STRONG MEASURES TAKEN BY THE

COSTA RICAN GOVERNMENT THIS YEAR TO DEAL WITH ITS BALANCE OF PAYMENTS PROBLEM (CREDIT CONTROLS AND HIGH CONSUMPTION TAXES ON IMPORTS) APPEAR TO HAVE STABILIZED THE COUNTRY'S RESERVE SITUATION BUT THEY HAVE NOT BROUGHT ABOUT THE KIND OF TURNAROUND NEEDED TO FURTHER STRENGTHEN COSTA RICA'S RESERVE POSITION. RESERVE LEVELS ARE NOW ONLY SLIGHTLY HIGHER THAN AT YEAR END WHEN GROSS RESERVES WERE \$68 MILLION AND NET RESERVES \$38.5 MILLION. WITH IMPORTS RUNNING AT ABOUT \$60 MILLION PER MONTH, THE CURRENT GROSS RESERVE LEVEL IS EQUAL TO ONLY ABOUT FIVE WEEKS IMPORTS. THE CENTRAL BANK HAS RELEASED A PROJECTION INDICATING THAT COSTA RICA MIGHT RUN A \$310 MILLION DEFICIT ON CURRENT ACCOUNT IN 1975. THE EMBASSY BELIEVES, HOWEVER, THAT THIS IS A DELIBERATE PESSIMISTIC PROJECTION INTENDED TO HELP THE CENTRAL BANK WARD OFF GROWING PRESSURES FROM THE BUSINESS COMMUNITY FOR A RELAXATION OF CREDIT RESTRICTIONS AND REDUCTIONS IN CONSUMPTION TAXES. THE PROJECTION WOULD ALSO BOLSTER THE CASE FOR ADDITIONAL BALANCE OF PAYMENTS MEASURES IF THE CENTRAL BANK DECIDES THEY ARE NECESSARY.

3. THE CENTRAL BANK'S ESTIMATE OF A POSSIBLE \$310 MILLION TRADE DEFICIT IS BASED ON AN IMPORT PROJECTION OF \$780 MILLION AND EXPORT PROJECTION OF \$470 MILLION. THE EMBASSY ESTIMATED IN JANUARY (REFTEL) THAT IMPORTS FOR 1975 WOULD BE ABOUT \$725 MILLION. WE CONTINUE TO BELIEVE THAT THIS ESTIMATE, WHICH ALLOWS FOR A 4 PERCENT INCREASE OVER THE ABNORMALLY HIGH IMPORT LEVEL OF 1974 IS A GOOD ONE. NEW LETTERS OF CREDIT ISSUED IN THE FIRST THREE MONTHS OF 1975 TO COVER IMPORTS SHOW A 7 PERCENT DECLINE FROM THE SAME PERIOD LAST YEAR.

4. THE CENTRAL BANK'S EXPORT ESTIMATE OF \$470 MILLION FOR 1975 LOOKS LIKE A GOOD ONE. THE EMBASSY HAD ESTIMATED (REFTEL) AN EXPORT LEVEL OF \$495 MILLION, BUT MORE RECENT INFORMATION INDICATES THAT RECEIPTS FROM COFFEE AND SUGAR WILL BE LESS THAN THE EMBASSY LIMITED OFFICIAL USE

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PAGE 03 SAN JO 02500 181735Z

EXPECTED WHEN THE JANUARY ESTIMATE WAS MADE. WE NOW THINK THAT BOTH CROPS WILL BE DOWN IN VOLUME AND PRICE FROM OUR EARLIER ESTIMATE. COFFEE EXPORTS WILL TOTAL ABOUT \$90 MILLION OR LESS, AS COMPARED TO OUR ESTIMATE OF \$105 MILLION, AND SUGAR EXPORTS WILL TOTAL ABOUT \$65 MILLION AS COMPARED TO OUR ESTIMATE OF \$75 MILLION. BEEF EXPORTS WILL ALSO BE SOMEWHAT BELOW OUR EARLIER ESTIMATE BUT THE LOSS WILL BE MORE THAN OFFSET BY AN

INCREASE IN RICE EXPORTS. THUS, THE EMBASSY'S
REVISED ESTIMATE OF EXPORTS WOULD BE VERY CLOSE TO
THE \$470 MILLION ESTIMATE BY THE CENTRAL BANK.

5. IF THE EMBASY'S ESTIMATES ARE CORRECT, COSTA
RICA'S OVERALL TRADE DEFICIT FOR 1975 WOULD BE IN THE
NEIGHBORHOOD OF \$265 MILLION, ROUGHLY THE SAME AS IN
1974 WHEN THE DEFICIT TOTALED \$260 MILLION.

6. ANOTHER TRADE DEFICIT OF THE SIZE OF LAST YEAR'S
UNLESS OFFSET BY AN INCREASE IN AUTONOMOUS CAPITAL
INFLOWS, WHICH THE EMBASSY CONSIDERS UNLIKELY, WOULD
APPEAR TO CALL FOR A HIGHER LEVEL OF BORROWING THAN
IS HEALTHY FOR THE ECONOMY. MOREOVER, MOST OF THE
BORROWING WILL HAVE TO BE SHORT-TERM AT COMMERCIAL
RATES IF THE GOVERNMENT CONTINUES TO WISH TO AVOID
THE CONDITIONS THAT WOULD BE IMPOSED IF THEY
SOUGHT MONEY FROM THE INTERNATIONAL MONETARY FUND
OR EVEN THE CENTRAL AMERICAN STABILIZATION FUND.
IF COSTA RICA'S BALANCE OF PAYMENTS POSITION DOES
NOT SOON IMPROVE, THE GOVERNMENT WILL HAVE TO THINK
IN TERMS OF ADDITIONAL RESTRICTIONS OR DEVALUATION.
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